

152. PU Code § 728.2(a) provides that the Commission shall investigate and consider the revenues and expenses with regard to yellow pages advertising "for purposes of establishing rates for other services offered by telephone corporations."

153. An AEUS is a surcharge imposed on all customers' expenditures for telecommunications services.

154. Under a net trans account, the surcharge is collected from carrier contributions based on a percentage charge of its revenues, net of payments made to other carriers for telecommunications access.

155. D.95-07-050 proposed that a net trans account be adopted as the funding mechanism, although the Commission stated that it was still undecided as to whether the net trans account is preferable over an AEUS.

156. Section 254(f) of the Telco Act provides in part that "Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State."

157. With an AEUS, customers can see the amount of the surcharge, and contact appropriate government officials if they are concerned about the size of the surcharge.

158. The AEUS method is already in place to collect both the ULTS and the CHCF-A, whereas the net trans account method is a new concept and has not been tested.

159. D.94-09-065 held that all end users of every LEC, IEC, cellular, and paging company in the state, receive value from the interconnection to the switched network, and that they should be included in the billing base for the ULTS program and the Deaf and Disabled Telecommunications program.

160. The COLR is the regulatory concept that by accepting the franchise obligation from the state to serve a particular area, the

public utility is obligated to serve all the customers in that service area who request service.

161. The COLR concept is important to universal service policy because that is the way in which customers are assured of receiving service.

162. Prior to the opening of the local exchange markets to competition, the 22 incumbent LECs served as the COLRs.

163. D.95-07-050 noted that with the introduction of competition, that may result in more than one COLR in certain areas, and only one COLR in other areas.

164. D.95-07-050 proposed that the incumbent LECs continue to serve and be designated the COLR in all of their respective service areas, and that other carriers could be designated COLRs as well.

165. D.95-07-050 proposed that only the designated COLRs would be able to receive a subsidy for providing service to residential customers in high cost areas.

166. The COLR obligation applies to both residential and business customers, and in all areas of the state, regardless of whether it is a high cost area or a low cost area.

167. The GSAs serve as the reference point in the proxy model from which cost data and high cost area subsidies can be derived.

168. The purpose behind allowing only designated COLRs to draw from the CHCF-B is to attract competition into the high cost areas of the state, and to provide consumers with the choice of more than one carrier.

169. In resolving the windfall issue, we must be cognizant of the motives of all the parties.

170. In order to implement a fund which provides explicit support to high cost cost areas, and to transition from implicit subsidies to explicit subsidies, immediate action to avoid the windfall must be taken.

171. Residential basic service should be excluded from the equal percentage reduction proposal to avoid widening the gap between residential rates and their costs.

172. A subsequent phase of this proceeding should be opened to address what rate reductions need to be permanently made to avoid the double recovery of universal subsidy support.

173. D.95-07-050 proposed that the Commission should administer the CHCF-B.

174. The Commission should be the initial administrator of the CHCF-B so that if any adjustments and changes are necessary, they can be quickly incorporated into the fund.

175. At the end of one year, the Commission will evaluate the operations and administration of the CHCF-A and the CHCF-B, to determine if neutral third parties should take over the administration of the two funds.

176. D.95-07-050 proposed that the subsidy amounts be periodically reviewed.

177. A review of the CHCF-B every three years will ensure that the overall size of the fund is within reason, and that the fund will be adjusted as competition and technology evolve.

178. With a subsidy mechanism in place, an auction mechanism appears at the moment to be the most efficient mechanism for reviewing the subsidy amounts in the future.

179. The ULTS program is designed to promote the use of affordable, statewide, basic telephone service among low income households.

180. With the introduction of local exchange competition, the Commission needs to review and revise the ULTS program so that all carriers who provide residential basic service to ULTS customers can avail themselves of the ULTS funds.

181. The ULTS program currently has approximately 3 million ULTS customers, with a fund size of approximately \$360 million, and a surcharge of 3.2%.

182. Subdivision 5 of GO 153 provides that carriers may seek reimbursement for expenses incurred and revenues lost as a result of providing ULTS, including expenses for "Commercial/Marketing".

183. The group of potential customers who qualify under ULTS is a finite group, and every carrier who plans to offer residential service will be targeting the same group of customers.

184. Multiple ULTS marketing campaigns by multiple carriers should not be subsidized by the ULTS program because it indirectly subsidizes each carrier's overall marketing strategy, and increases the ULTS program expenses.

185. In a competitive environment, a single entity should be responsible for the marketing of ULTS services in a competitively neutral manner.

186. A ULTS Marketing Working Group should be established to develop and oversee the implementation of competitively neutral marketing strategies for the ULTS program.

187. The ULTS discounted installation charge was previously discussed in D.94-09-065, and should not be reexamined here.

188. The Administrative Committee of the ULTS Trust should continue to oversee the administration of the ULTS program.

189. The franchise obligations issue was addressed in the franchise impacts hearing of the Local Competition proceeding, and is awaiting a decision by the Commission.

Conclusions of Law

1. GTEC's proposed transcript corrections will be adopted, and the corrections will be made to the Commission's copy of the reporter's transcript.

2. The objection to the receipt of Exhibit 117 into evidence is overruled, and shall be received into evidence.

3. AT&T/MCI's motion to strike the references in Pacific's opening brief to the article by Dr. Alfred Kahn is denied.

4. AT&T/MCI's motion to strike the references in Pacific's opening brief at pages 23, 42, and 44, regarding alleged

conversations between US West and Pacific, is granted, and those references shall be stricken.

5. A uniform definition of basic service should be adopted so that all residential telephone customers in California, regardless of their location or income, can expect a certain minimum level of service.

6. The use of the term "free" in our adopted basic service definition is intended to recognize that as part of the bundled basic service package, that there are no additional charges incurred by the customer when that service element is used by a customer.

7. The seventeen smaller LECs shall be exempted from the basic service element that they be required to offer customers the choice of flat or measured rate service.

8. The Commission only has jurisdiction over the telephone companies whose wires connect the computer to the information provider.

9. A situation may arise that requires a review of the definition of basic service before the three year review period comes up.

10. In order to trigger an immediate review of the definition of basic service, the proponent for the inclusion of a new service element shall be permitted to make a showing that at least three of the four review criteria have been met.

11. The Commission may use the summary denial procedure contained in Rule 47(h) of the Rules of Practice and Procedure when it is clear that the basic service definition should not be expanded or reduced, or in cases where the Commission is not persuaded, based on the petition and the responses, that a service element should be included or deleted.

12. The review criteria that we adopt in Rule 4.C.3. is consistent with PU Code § 709, and the principle enunciated in AB

3643 that there must be an ongoing evaluation of which services are deemed essential, and therefore a part of universal service.

13. In determining whether a new service element should be included in the definition of basic service, the Commission will consider all of the listed review criteria in Rule 4.C.3., as well as the associated policy considerations; however, the weight to give to each criteria should be developed on a case by case basis.

14. The Commission can formulate incentives with respect to the telecommunication services being utilized for advanced technologies, but lacks jurisdiction over the non-regulated companies that are joining together to offer these advanced technologies.

15. The burden should not fall on the telecommunications providers and their ratepayers to fund the design and research of potential new services and applications that are not directly related to telecommunications.

16. As the state agency in charge of regulating the telecommunications industry, we should take the initiative to ensure that the development and deployment of advanced telecommunications technologies do not pass certain customer segments by.

17. The Commission should form the USWG to address ways in which access and deployment of advanced telecommunications technologies can be provided to all customer segments, and how education, health care, community, and government institutions can be positioned to take advantage of these technologies.

18. The USWG should be funded at \$1 million per year for a period of two years from monies in the CHCF-B.

19. In deciding whether new telephone service should be approved in unserved rural communities, the Commission should determine on a case by case basis whether it is reasonable and prudent to offer telephone service in those localities.

20. CSD shall review the unserved area issue periodically, and present its written recommendations to the Commission as to how this problem can be resolved.

21. Public Advocates' call for targeted outreach, and submission of marketing plans from all carriers goes beyond the requirements imposed on GTEC and Pacific in D.94-09-065.

22. Utility redlining issues should be addressed by the Commission since it has the express power to prohibit discrimination as to rates, charges, service, and facilities.

23. The Executive Director, in concert with the appropriate Commission divisions, shall develop a plan of action for implementing consumer education programs.

24. Although AB 3643 does not mandate discounts for schools, libraries, rural health care providers, and CBOs, that legislation made clear that these types of organizations are to be positioned to be early recipients of the benefits of the information age, and that incentives should be provided to promote the deployment of advanced telecommunications services to all customer segments.

25. If the Commission waits until the FCC adopts its rules regarding discounts to schools and libraries, our rules on this subject could be delayed until May 1997, well beyond the time contemplated in AB 3643.

26. With respect to the discounts for schools, only public or nonprofit schools providing elementary or secondary education, and which do not have endowments or more than \$50 million may request the discounted rate.

27. With respect to the discounts for libraries, only those libraries which are eligible for participation in state-based plans for funds under Title III of the Library Services and Construction Act shall be eligible for the discounted rate.

28. Although the FCC has not yet adopted what services can be provided at a discount to schools and libraries, we believe that at a minimum, it will include the service elements that make up a 1MB

line, and that discounted rates for switched 56, ISDN, T-1, and DS-3 services, or their functional equivalents, are a strong possibility as well.

29. We agree with DCA that the Telco Act intended to create a different rate discount for rural health care providers than the rate discount for schools and libraries.

30. No one has submitted any evidence in this proceeding about what a reasonably comparable rate should be for a rural health care provider, nor is there any evidence to suggest that health care providers in rural areas are currently charged different rates than their urban counterparts.

31. With respect to the discounts for CBOs, only public or private nonprofit organizations that offer health care, job training, job placement, or educational instruction shall qualify.

32. Funding for these discount programs for qualifying schools, libraries, and CBOs should be funded at \$20 million per year through the CHCF-B, of which \$5 million shall be targeted for the CBOs, and the remainder for schools and libraries, including any unused portion of the CBO monies.

33. The Telecommunications Division shall monitor the estimate of the size of the discounts for certain designated entities over the course of the coming year, and annually thereafter, and shall keep the Commission informed as to whether any adjustments are needed.

34. The Telecommunications Division shall review and compare the FCC's plan for discounts to certain designated entities with the rules we adopt today, and shall inform us of any inconsistencies.

35. In deciding whether basic service for business customers in high cost areas should be subsidized or not, the Commission needs to weigh the cost of such a subsidy, and the burden on ratepayers.

36. The costs associated with providing telephone service to business customers in high cost areas of the state should not be included as part of the CHCF-B.

37. The Legislature in PU Code § 709.5 clearly intended that the local exchange market be opened to competition, and that the rules and regulations regarding universal service be in place by January 1, 1997.

38. PU Code § 709.5 raises the broader issue as to whether different universal service funds can be adopted for different size carriers.

39. At the present time, only GTEC, Pacific, CTCC, Contel, and Roseville should be included in the CHCF-B for the purpose of determining universal service subsidy support in their high cost areas.

40. The seventeen smaller LECs should be excluded from the CHCF-B for the purpose of determining universal service subsidy support in their high cost areas.

41. The seventeen smaller LECs should continue to be eligible to draw from the CHCF-A fund under our existing procedures.

42. For the most part, we should follow the TSLRIC CCPs as the cost standard for the development of a proxy model.

43. Although the CCPs advocate that forward looking and least cost technology be used, the proxy model should not use a HFC network because such technology is unproven.

44. A new technology does not have to be deployed universally before it is incorporated into a universal service cost study.

45. In evaluating which proxy cost model should be used to estimate the cost of providing residential basic service throughout the state, the following criteria should be used: (1) the ability to estimate costs for the entire state on a CBG level; (2) the degree to which the design of the model can accurately reflect costs; (3) the openness and accessibility of the model to changes in assumptions and inputs; (4) the ability to model costs based on

today's placement of technology; (5) the ability to model the proposed definition of basic service and subsequent changes to this definition; and (6) the verifiability of inputs and assumptions.

46. The CPM should be adopted as the proxy model to develop the cost of providing basic service to all residential customers in California.

47. Subsidizing one residential line per household in high cost areas allows each household to have essential telephone service.

48. An adjustment to the CPM of \$56.96 million should be adopted so as to subsidize one primary line to each household in a high cost area.

49. TURN's suggestion that all subscribers requesting residential basic service in high cost areas be required to certify that they are not presently receiving residential basic service through any other telephone company will be adopted, and CSD and the Telecommunications Division shall convene a workshop to discuss ways in which the self certification process in GO 153 can be adapted for use with the CHCF-B.

50. An adjustment to the CPM of \$39.7 million should be adopted to spread the cost of the drop over two pairs instead of one.

51. An adjustment to the A & B copper cable cost of \$46.06 million should be adopted due to Pacific's revision of this cost.

52. An adjustment to the A & B conduit costs should be made in the amount of \$95.2 million.

53. An adjustment to the feeder and distribution cable sizes should be adopted in the amount of \$46.06 million.

54. An adjustment to the CPM of \$77.6 million to extend the cut-off of copper feeder to 12,000 feet should be adopted.

55. The proxy cost model should be reasonably consistent with the practices adopted in the OANAD proceeding.

56. The design fill factors for feeder and pair gain should be adopted, and for distribution, Pacific's distribution fill factors should be used.

57. A \$90.7 million adjustment to reflect the adopted fill factors should be adopted.

58. The economic life depreciation method should not be used because Pacific has not demonstrated that the accelerated replacement of plant is necessary for the ongoing provisioning of residential basic service.

59. The Commission approved depreciation lives established in D.95-11-009 should be used in the CPM.

60. An adjustment to the CPM of \$245 million should be adopted to reflect the use of Commission approved depreciation lives rather than economic lives.

61. GTEC's switch reordering proposal should be adopted to avoid the mismatches that GTEC had observed in the CPM results.

62. The switch reordering proposal results in an adjustment of \$107.5 million to the CPM.

63. GTEC's adjustment to the outside plant factor in the CPM should be adopted.

64. The adoption of the adjustment to the outside plant factor results in an adjustment of \$33.8 million.

65. Pacific's estimate of switch costs should be used in the CPM because it is consistent with the depreciation adjustment that has been adopted for the CPM.

66. If the shorter economic life depreciation was used, one would expect a more rapid replacement of older switches with commensurate higher discounts.

67. Given our previous determination in D.94-09-064, we decline to conclude in this proceeding that the loop is a shared cost.

68. Pacific has not demonstrated that the costs allocated by the CPM to basic service were caused by residential basic service, as opposed to the other services offered by Pacific.

69. Pacific's modification of only two of the sixteen allocation factors calls into question the reliability and reasonableness of those allocators.

70. Section 254(k) of the Telco Act places a limit on the share of joint and common costs that should be borne by the service elements that make up basic service.

71. The modification of the two allocation factors results in a shifting of costs onto basic service, which results in basic service bearing more than its reasonable share of the joint and common costs in the CPM.

72. The unmodified PI allocation factors that Pacific used initially for the proprietary version of the CPM are more reliable and reasonable allocations of shared costs than those proposed by Pacific, and should be adopted as an adjustment to the CPM.

73. The Conference Report regarding the Telco Act contemplates that the cost of universal service may bear less than a reasonable share of joint and common costs.

74. Consistent with the Conference Report, the Commission should reduce the common costs per line to \$2.00 to safeguard against cross subsidy and anticompetitive behaviour.

75. An adjustment to the CPM's shared and common costs results in an adjustment of \$415.7 million.

76. An adjustment to the CPM's estimate of rearrangement expenses should be made, which results in an adjustment of \$165.6 million.

77. An adjustment to the CPM's estimate of the non-recurring burden should be made, which results in an adjustment of \$41.6 million.

78. An adjustment to the CPM's estimate of the directory assistances expenses should be made, which results in an adjustment of \$48.4 million.

79. Selection of the benchmark will have ramifications in other proceedings that seek to address competitive pricing issues.

80. In developing the benchmark, the Commission must balance the risk of a rate increase, the economic and social burden of subsidizing basic service, and the universal service policies of encouraging subscribership and maintaining rates at affordable levels.

81. The adjusted CPM statewide average cost of \$18.39 should be used as the benchmark because it better reflects the actual costs of providing universal service, and breaks the link with the LECs' current rate structures.

82. Today's decision does not authorize the incumbent LECs from raising their residential basic service rates.

83. Those GSAs whose adjusted CPM estimate of the cost of providing residential basic service is equal to or greater than the \$18.39 benchmark, shall be deemed to be a high cost area and eligible for subsidy funding through the CHCF-B.

84. Those GSAs whose adjusted CPM estimate of the cost of providing residential basic service is less than the \$18.39 benchmark, shall be deemed to be a low cost area and not eligible for subsidy funding through the CHCF-B.

85. Revenues received from residential basic service is an appropriate offset to the CHCF-B.

86. The EUCL charge is an appropriate offset to the CHCF-B because it recovers a large share of the interstate portion of the LECs' NTS embedded loop costs.

87. The CCLC is an appropriate offset to the CHCF-B because it recovers the remaining portion of residential and single line business NTS costs that are not recovered by the EUCL charge.

88. To the extent that any of the LECs receive support from the interstate USF, that is an appropriate offset to the CHCF-B, and should be offset by the carrier's per line monthly USF draw multiplied by the percentage of lines eligible for high cost assistance in California.

89. Yellow pages revenues should not be included as an offset to the CHCF-B because this proceeding is only establishing a fund to subsidize high cost areas of the state, and is not "establishing rates for other services offered by telephone corporations."

90. The use of yellow pages revenues would significantly reduce the contribution of others to support the fund, which would be contrary to the intent in the Telco Act and AB 3643 that such funding be equitable.

91. In deciding which type of funding mechanism to adopt, the following criteria should be met: (1) that it is competitively neutral; (2) that it clearly identifies the source of the subsidy; and (3) that consumers have the information they need to make informed choices.

92. An AEUS conforms with AB 3643 because it clearly identifies the source of the subsidy, customers can see how much they are paying into the fund, and customers are informed as to the amount of the surcharge.

93. With a net trans account funding mechanism, if the carrier decided to absorb some or all of the fund charge, or chose not to disclose that part of their bill pays to support the CHCF-B, then the AB 3643 principle that the subsidy be imposed in a manner that clearly identifies the source of the subsidy would not be met.

94. The AEUS method of funding is a more competitively neutral method of funding than the net trans account method because it is imposed on virtually all telecommunications services and customers.

95. We are not persuaded by TURN's argument that Section 254(k) of the Telco Act limits our ability to impose an AEUS to

fund the CHCF-B, since Section 254(f) of the Telco Act permits the states to adopt regulations pertaining to universal service that are not inconsistent with the FCC's rules to preserve and advance universal service.

96. Carriers who collect the AEUS contribute to the CHCF-B because they incur administrative expenses to assess, collect, and remit, the monies to the fund.

97. An AEUS should be adopted to collect the surcharge for the CHCF-B.

98. The only customer group that should be excluded from the AEUS for the CHCF-B are ULTS customers.

99. D.94-09-065 considered and rejected CCAC's argument that they should be exempt from subsidizing the landline network in any manner, and that same argument should be rejected for the CHCF-B surcharge as well.

100. For purposes of collecting the funds for the CHCF-B, the CHCF-B shall appear next to the CHCF-A as two separate line items on each customer's bill beginning January 1, 1997.

101. Carriers shall be responsible for remitting the CHCF-A and the CHCF-B monies to separate bank accounts, and shall account for these two funds separately.

102. The carriers shall mail bill inserts beginning on January 1, 1997, informing customers of the new surcharge amount.

103. The Telecommunications Division shall convene a workshop as soon as possible to develop a bill insert notifying customers of the CHCF-B surcharge.

104. Pacific shall provide for an orderly transfer to the Telecommunications Division of all the responsibilities associated with the CHCF-A.

105. The GSAs are not intended to serve as the service area for all CLCs, because CLCs are free to designate the service territory that they intend to serve.

106. A designated COLR who is the incumbent LEC, in order to avail themselves of the subsidy for a high cost GSA, shall be required to serve all the high cost GSAs that are within the incumbent LEC's existing exchange area boundaries.

107. All CLCs who are designated COLRs, in order to avail themselves of the subsidy for a high cost GSA, shall be required to serve all the high cost GSAs that are within the CLC's designated service territory.

108. The selection of CBGs to serve as the GSAs will not act as a barrier to entry because the CBGs tend to be smaller in geographic area than exchanges.

109. A reseller shall be able to draw from the CHCF-B so long as the reseller is a designated COLR, and can demonstrate that its bundled service offering provides all the required service elements of basic service.

110. A designated COLR in a high cost GSA shall be entitled to, on a per residential customer basis, the difference between the adopted CPM cost estimate of serving the CBG(s) that are within the COLR's serving area, and the adopted benchmark price, less the offsets for the EUCL charge, CCLC, and the interstate USF, if any.

111. In order to receive the subsidy for serving high cost areas, the designated COLR shall submit on a monthly basis the required report showing, among other things, the number of residential basic service customers it served during the prior month.

112. The Telecommunications Division shall convene a workshop within 90 days to develop the type of monthly information that designated COLRs must report.

113. CLCs seeking to be designated a COLR, shall follow the procedure set out in Rule 6.D.4. of Appendix B.

114. The incumbent LECs listed in Attachment A of Appendix B are designated the COLRs in their existing service areas.

115. AT&T/MCI's suggestion that essential monopoly input functions be reduced to their direct economic costs or TSLRIC, is an issue that the OANAD proceeding should handle, rather than this proceeding.

116. The testimony that was offered regarding rate rebalancing and deaveraging was properly excluded from this proceeding.

117. In order to make subsidies for high cost areas explicit, there must be a correlating downward adjustment of rates through a surcredit or reduction in tariffed rates so as to prevent the LECs from recovering implicit subsidy support as well.

118. CCTA's proposal of an equal percentage reduction for all prices, except for residential basic service, and rates covered by contracts, results in the most competitively neutral outcome in the short term.

119. To avoid double recovery of universal service support, the five large and mid-size LECs shall reduce all of their rates, except for residential basic service and existing contracts, by an equal percentage reduction, in an amount that equals the anticipated monthly draw that they anticipate receiving from the fund.

120. The equal percentage rate reduction shall be accomplished by a monthly surcredit to each customer's bill through an advice letter filing.

121. The large and mid-size LECs shall establish memorandum accounts to track the rate reductions, so that a true up to ensure that the total rate reductions equal the total amount the LECs receive from the fund can occur, if necessary.

122. Another phase of this proceeding shall occur in about six months to address what rates that supplied implicit subsidies, should be rebalanced downwards to permanently offset the explicit subsidy support from the CHCF-B, and to review the true up memorandum accounts.

123. The Telecommunications Division shall provide quarterly updates at the Commission's meetings regarding the administration and operation of the CHCF-A and the CHCF-B.

124. The Telecommunications Division shall prepare a report for the Commission at the end of one year with its recommendations as to how the CHCF-A and CHCF-B should be administered.

125. CACD staff will monitor how competition develops in high cost areas of the state over the next two years in order to determine if an auction mechanism should be used as a means of reviewing the CHCF-B subsidy support.

126. CACD staff shall revise the ULTS Monthly Report and Claim Statement to have the carrier report the number of ULTS customers that it serves each month.

127. Our analysis of the ULTS statutes lead us to conclude that the ULTS subsidy cannot be applied as a credit to a carrier's higher priced basic service rate.

128. Until the Moore Act is amended by the Legislature, the ULTS program funds should not be used to subsidize a mobile telephone service that can be used anywhere.

129. The Moore Act contemplates the offering of basic telephone service at affordable rates, which enables a user to have a class of service necessary to meet minimum residential communication needs.

130. The Moore Act was not meant to include access to enhanced telecommunications services, nor was PU Code § 882 intended to create a ULTS entitlement to advanced telecommunications services.

131. The ULTS program will not be broadened to include Lifeline rates for enhanced services.

132. A two tiered ULTS program should not be adopted because of the increased funding requirements, and concern over the size of the program.

133. The CSD shall convene a workshop as soon as practicable to determine who is interested in serving on the ULTS marketing Working Group, and to discuss other details concerning the group.

134. The ULTS Marketing Working Group shall submit an annual report to the Commission regarding its activities during the prior year.

135. Effective upon the date this order is signed, ULTS advertising, outreach, and related marketing expenses by individual carriers will no longer be reimbursed by the ULTS fund.

136. Should the incumbent LECs decide to continue using existing advertising campaigns to market ULTS, the LECs shall reimburse the ULTS program for the production expenses associated with producing that material.

137. Before deciding whether an income verification process should be adopted for the ULTS program, CACD and the Legal Division shall investigate whether such a process will lead to additional federal monies for universal service support.

138. The Telecommunications Division staff shall provide quarterly updates to the Commission at its meetings regarding the Administrative Committee and the ULTS program.

139. Rate and revenue rebalancing issues should be given a higher priority in the months to come.

O R D E R

IT IS ORDERED that:

1. Exhibit 117 shall be received into evidence.
2. The motion of AT&T Communications of California, Inc. (AT&T) and MCI Telecommunications Corporation (MCI) to strike the references in Pacific Bell's (Pacific) opening brief to the article by Dr. Alfred Kahn is denied.
3. The motion of AT&T and MCI to strike the references in Pacific's opening brief regarding certain alleged conversations, is

granted, and those references shall be stricken from Pacific's brief.

4. The universal service rules attached hereto as Appendix B, are adopted.

- a. All incumbent local exchange carriers (LECs), and all competitive local carriers (CLCs), who offer local exchange residential service, shall provide all of the service elements listed in Rule 4 of Appendix B.
- b. All telecommunications carriers providing eligible low income customers with residential basic service, as defined in Rule 4.B. of Appendix B, under the Universal Lifeline Telephone Service (ULTS) program, shall be eligible to receive subsidy support for those customers from the ULTS program in accordance with Rule 5 of Appendix B.
- c. Effective immediately, telecommunications carriers will no longer be able to claim reimbursement for their advertising and marketing expenses associated with the ULTS program.
- d. Except as provided for in Rule 5.B.2. of Appendix B, all telecommunications carriers are required to charge their end users the ULTS surcharge, as set by the California Public Utilities Commission (CPUC), and to remit such monies to the ULTS program.
- e. The 22 incumbent LECs shown in Attachment A of Appendix B are designated the carriers of last resort (COLRs) in their respective service areas, and shall adhere to Rule 6.D. and Rule 6.E. of Appendix B.
- f. All LECs and CLCs shall comply with Rule 9.B. and Rule 9.C. of Appendix B.

5. The Cost Proxy Model (CPM), as adjusted by this decision, is chosen as the proxy model from which to develop an explicit universal service funding mechanism to support the high cost areas

of the following incumbent LECs: GTE California Incorporated (GTEC), Pacific, Citizens Utilities Company of California (CUCC), Contel of California, Inc. (Contel), and Roseville Telephone Company (Roseville).

- a. The funding mechanism to support the high cost areas within the service areas of GTEC, Pacific, CUCC, Contel, and Roseville, shall be known as the California High Cost Fund-B (CHCF-B).
- b. The applicable rules for the CHCF-B are contained in Rule 6, Rule 7.D., and Rule 8.A.
- c. The benchmark for purposes of the CHCF-B shall be \$18.39. A geographic study area (GSA) shall be considered high cost if the cost of serving residential customers in that GSA, as generated by the adjusted CPM, is at or above the benchmark price.
- d. GTEC, Pacific, CUCC, Contel, and Roseville, to the extent that they expect to receive any high cost area subsidy support from the CHCF-B, shall file advice letters offsetting any anticipated receipt of funds by an equal percentage rate reduction for all services except for residential basic service, and rates set by contracts. Such rate reductions shall be accomplished through a monthly surcharge equal to the expected receipt of funds for that month, and shall continue for a total of 12 months.
- e. GTEC, Pacific, CUCC, Contel, and Roseville shall establish memorandum accounts to track the rate reductions that they may make to offset funds they may receive from the CHCF-B for high cost area support. Review of whether any true up is necessary shall occur in a second phase of this proceeding to begin in about six months.
- f. All telecommunications carriers are required to charge all end users, except for ULTS customers, the CHCF-B surcharge, as set by the CPUC.

- g. The CHCF-B surcharge is set at 1.24%, and shall be collected from end users beginning January 1, 1997.
- h. The CHCF-B surcharge shall be shown as a separate line item, and shall immediately follow the CHCF-A line item surcharge.
- i. Effective with the billing cycle that begins January 1, 1997, and until all customers have been sent the bill insert, all telecommunications carriers shall include in their billing statements to customers, a bill insert notifying customers of the CHCF-B surcharge.
- j. Pacific shall incorporate the adjustments to the CPM that this decision has adopted, and shall tender the adjusted CPM to the CPUC within 45 days from the effective date of this decision, for the CPUC's use in administering the CHCF-B.

6. The seventeen smaller LECs, whose names appear on Attachment A of Appendix B, shall continue to be eligible to receive universal service support through the existing California High Cost Fund (CHCF-A); a smaller LEC shall not be eligible for funds from the CHCF-B to support high cost areas unless it becomes a designated COLR outside its existing service area in accordance with Rule 6.D.4. of Appendix B.

7. Qualifying schools, libraries, and community based organizations (CBOs) shall be eligible for discounts for certain services as provided for in Rule 8 of Appendix B.

- a. All telecommunications carriers offering the services described in Rule 8.B. and Rule 8.C., shall revise their tariffs within 45 days from the effective date of this decision to reflect these discounts.
- b. Reimbursement of telecommunications carriers from the CHCF-B for these discounts shall begin to accrue as of January 1, 1997.

- c. This discount program shall be funded through the CHCF-B, and will be set initially at \$20 million per year, with \$5 million allocated to qualifying CBOs, and \$15 million to qualifying schools and libraries. In the event the monies allocated in the first year for the CBOs are not exhausted, those excess funds shall be used for the benefit of the discount for schools and libraries in the subsequent year.
- d. The Telecommunications Division shall monitor the estimate of the size of the discounts on an annual basis, and shall inform the Commission as to whether any adjustments are needed.

8. The Executive Director shall meet with the various divisions of the CPUC as soon as possible to coordinate the establishment and administration of the CHCF-B, and to take over the administration of the CHCF-A.

- a. The CHCF-B shall become operative as of January 1, 1997.
- b. The CPUC shall take over the administration of the CHCF-A from Pacific within 6 months.
- c. Pacific shall provide for an orderly transfer to the CPUC of the CHCF-A responsibilities, and all the books, accounts, monies, and related paperwork.

9. The Executive Director shall meet with the various divisions of the CPUC to develop a plan of action for implementing consumer education programs.

10. The Public Advisor, working with other affected divisions as necessary, shall compile an annual report regarding the complaint history for each certificated carrier. The first report shall be available for dissemination on or about December 15, 1996, and shall cover the reporting period of July 1, 1995 to June 30, 1996. Subsequent annual reports shall be available by August 1st of each year thereafter.

11. Workshops shall be convened by the Consumer Services Division for the following purposes:

- a. A workshop to determine who is interested in participating in the Universal Service Working Group (USWG), and to discuss the purpose and organizational framework of the USWG shall be convened within 90 days from the effective date of this decision.
 - (1) Upon completion of the workshops, the staff shall submit a workshop report, along with the names of persons interested in serving on the USWG. The Commission will then issue a decision regarding the composition of the USWG, and its role and purpose.
 - (2) The USWG shall be funded through the CHCF-B, and will be set initially at \$1 million per year.
- b. A workshop to determine how different types of pricing packages and discounts can be accommodated in the customer information matrix shall be convened within six months from the effective date of this decision.
 - (1) Upon completion of the workshop, the staff shall prepare for the Commission a workshop report containing its recommendations.
- c. A workshop shall be convened within 45 days to determine who is interested in serving on the Universal Service Marketing Working Group (USMWG), and to discuss the purpose and organizational framework of the USMWG.
 - (1) Upon completion of the workshops, the staff shall submit a workshop report, along with the names of persons interested in serving on the USMWG. The Commission will then issue a decision regarding the composition of the USMWG, and its role and purpose.
 - (2) The USMWG shall be funded through the ULTS program in accordance with the

discussion in the text of this decision.

12. Workshops shall be convened by the Telecommunications Division for the following purposes:

- a. A workshop to formulate the bill insert to advise end users of the CHCF-B surcharge shall be convened within 30 days from the effective date of this decision. The assigned Administrative Law Judge (ALJ), in conjunction with the Public Advisor's office, shall review the draft(s) of the bill insert, and shall notify the service list as to which bill insert to use.
- b. A workshop shall be convened within 60 days to develop the type of monthly information that designated COLRs must report. The staff's workshop report and recommendation shall be forwarded to the Commission and to the Assigned ALJ.
 - (1) The assigned ALJ, in consultation with the assigned Commissioner, shall issue a ruling prescribing the monthly reports the COLRs must report.

13. The Consumer Services Division, in conjunction with the Telecommunications Division shall convene a workshop within 90 days to explore ways in which the self certification format contained in General Order 153 can be used by residential customers in high cost areas of the state to ensure that each household is receiving only one subsidized line.

14. The Telecommunications Division shall review and compare all the universal service rules that the Federal Communications Commission may adopt, and shall identify issues that are inconsistent with the universal service rules adopted today, or which have not yet been addressed by the CPUC. Upon the completion of the staff's review, the staff shall recommend to the Commissioners what issues need to be resolved.